

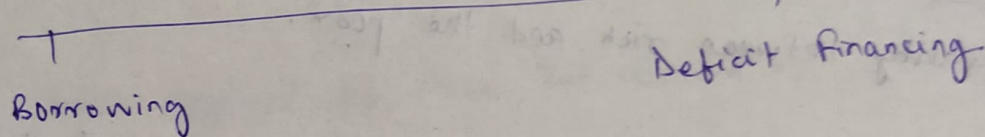
Public Deficit

More expenditure compared to revenue.

Deficit and Borrowing directly related to each other.

If govt. is going for printing of new notes \rightarrow Deficit Financing

Deficit can be covered through 2 instruments



Revenue Deficit - More revenue expenditure compared to revenue receipts.

- This may be due to non-planned expenditure

- Effective Revenue Deficit = Revenue Deficit - Capital Creating Assets.

Budget Deficit = Total Expenditure - Total Revenue

Fiscal Deficit = Total Expenditure - Total receipts excluding borrowings

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greater emphasis on market liabilities.
= Budget Deficit + Borrowings of govt and Market Liabilities.

Primary Fiscal Interest
Deficit = Deficit - Payments.

FRBM Act - To maintain fiscal discipline and its main aim is to reduce fiscal deficit, by 0.5% of GDP.

- Subsidies are progressive and are meant to reduce the inequality between rich and the poor.
 - Subsidies should be discernible in nature and should not be generalised.
 - It should be provided to the poor and marginalized.
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CENTRE - STATE FINANCIAL RELATION

- also known as Fiscal federalism.
- how resources are distributed b/w Centre and State.
- 3 lists
 - Union List
 - State List
 - Concurrent List.
- Tax is the main instrument of devolution of resources from Centre to State.

→ (i) Taxes like Customs duty, Corporation Tax are levied and collected and kept by Union govt.

(ii) ~~Taxes~~ Taxes like excise duty on Tobacco, Income Tax are imposed, collected by Union but shared with the States.

(iii) Some taxes are imposed, collected by Union but entirely given to States, eg, Railway taxes, Estate Duty.

(iv) Some taxes imposed by Union but collected by State govt. such as stamp duties.

→ When states are in need of money, they can either indulge in public borrowing or borrow from govt.

→ When Centre is giving resources to states → Vertical Devolution

→ When States share resources among each other → Horizontal Devolution

Grants

General (Equalising grant)

Grants which have no terms and condⁿs about

where the grant

should be utilised.

No specific purpose or supervision for use of the fund.

Selective Grant (conditional grant)

Grants which have specific terms regarding where the grant should be utilised.

Which is better for a state?

- Both have their own merits and demerits.